

House File 536 - Introduced

HOUSE FILE 536
BY COMMITTEE ON STATE
GOVERNMENT

(SUCCESSOR TO HSB 100)

A BILL FOR

1 An Act concerning the duties and responsibilities of the
2 auditor of state.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 11.1, Code 2011, is amended to read as
2 follows:

3 **11.1 Definitions.**

4 1. For purposes of this chapter, unless the context
5 otherwise requires:

6 a. The term *"department"* shall be construed to mean
7 *"Department"* means any authority charged by law with official
8 responsibility for the expenditure of public money of the state
9 and any agency receiving money from the general revenues of the
10 state.

11 b. *"Examination"* means procedures that are less in scope
12 than an audit but which are directed toward reviewing financial
13 activities and compliance with legal requirements.

14 c. *"Governmental subdivision"* means cities and
15 administrative agencies established by cities, hospitals or
16 health care facilities established by a city, counties, county
17 hospitals organized under chapters 347 and 347A, memorial
18 hospitals organized under chapter 37, entities organized under
19 chapter 28E, community colleges, area education agencies, and
20 school districts.

21 d. *"Regents institutions"* means the institutions governed by
22 the board of regents under section 262.7.

23 2. As used in this chapter, unless the context otherwise
24 requires, *"book"*, *"list"*, *"record"*, or *"schedule"* kept by a
25 county auditor, assessor, treasurer, recorder, sheriff, or
26 other county officer means the county system as defined in
27 section 445.1.

28 Sec. 2. Section 11.2, subsection 1, Code 2011, is amended
29 to read as follows:

30 1. The auditor of state shall annually, and more often if
31 deemed necessary, ~~make a full settlement between~~ audit the
32 state and all state officers and departments ~~and all persons~~
33 receiving or expending state funds, ~~and shall annually make a~~
34 complete audit of the books and accounts of every department
35 of the state.

1 ~~a. Provided, except that the accounts, records, and~~
2 documents of the treasurer of state shall be audited daily.

3 ~~b. Provided further, that a preliminary audit of the~~
4 ~~educational institutions and the state fair board shall be made~~
5 ~~periodically, at least quarterly, to check the monthly reports~~
6 ~~submitted to the director of the department of administrative~~
7 ~~services as required by section 8A.502, subsection 10, and that~~
8 ~~a final audit of such state agencies shall be made at the close~~
9 ~~of each fiscal year.~~

10 Sec. 3. Section 11.2, Code 2011, is amended by adding the
11 following new subsection:

12 NEW SUBSECTION. 1A. Departments shall immediately notify
13 the auditor of state regarding any suspected embezzlement,
14 theft, or other significant financial irregularities.

15 Sec. 4. Section 11.2, subsection 2, paragraphs a, b, and c,
16 Code 2011, are amended to read as follows:

17 a. The state board of regents shall make available to the
18 auditor of state and treasurer of state the most recent annual
19 report of any investment entity or investment professional
20 employed by an a regents institution ~~governed by the board.~~

21 b. All contracts or agreements with an investment entity or
22 investment professional employed by an a regents institution
23 ~~governed by the state board of regents~~ shall require the
24 investment entity or investment professional employed by an a
25 regents institution ~~governed by the state board of regents~~ to
26 notify in writing the state board of regents within thirty days
27 of receipt of all communication from an independent auditor
28 or the auditor of state or any regulatory authority of the
29 existence of a material weakness in internal control ~~structure,~~
30 or regulatory orders or sanctions against the investment
31 entity or investment professional, with regard to the type of
32 services being performed under the contracts or agreements.
33 This provision shall not be limited or avoided by another
34 contractual provision.

35 c. The audit under this section shall not be certified until

1 the most recent annual reports of any investment entity or
2 investment professional employed by an a regents institution
3 ~~governed by the state board of regents~~ are reviewed by the
4 auditor of state.

5 Sec. 5. Section 11.4, subsection 1, Code 2011, is amended
6 to read as follows:

7 1. The auditor of state shall make or cause to be made and
8 filed and kept in the auditor's office written reports of all
9 audits and examinations, which reports shall ~~set out in detail~~
10 include, if applicable, the following:

11 a. The ~~actual~~ financial condition of ~~such~~ the state or
12 department ~~found to exist on every examination.~~

13 b. Whether, in the auditor's opinion,

14 (1) ~~All funds~~ Funds have been expended for the purpose for
15 which appropriated.

16 (2) The department so audited ~~and~~ or examined is efficiently
17 conducted, and if the maximum results for the money expended
18 are obtained.

19 (3) The work of the departments so audited or examined
20 needlessly conflicts with or duplicates the work done by any
21 other department.

22 c. All illegal or unbusinesslike practices.

23 d. Any recommendations for greater simplicity, accuracy,
24 efficiency, or economy in the operation of the business of the
25 several departments and institutions.

26 ~~e. Comparisons of prices paid and terms obtained by the~~
27 ~~various departments for goods and services of like character~~
28 ~~and reasons for differences therein, if any.~~

29 ~~f.~~ e. Any other information which, in the auditor's
30 judgment, may be of value ~~to the auditor.~~

31 Sec. 6. Section 11.4, subsection 2, Code 2011, is amended by
32 striking the subsection.

33 Sec. 7. Section 11.5A, Code 2011, is amended to read as
34 follows:

35 **11.5A Audit costs.**

1 When requested by the auditor of state, the department of
2 management shall transfer from any unappropriated funds in
3 the state treasury an amount not exceeding the expenses and
4 prorated salary costs already paid to perform ~~examinations~~
5 audits of state executive departments and agencies, and
6 the offices of the judicial branch, and federal financial
7 assistance, as defined in ~~Pub. L. No. 98-502~~ the federal Single
8 Audit Act, 31 U.S.C. § 7501, et seq., received by all other
9 departments, as listed in section 11.5B, for which payments by
10 agencies have not been made. Upon payment by the departments,
11 the auditor of state shall credit the payments to the state
12 treasury.

13 Sec. 8. Section 11.5B, unnumbered paragraph 1, Code 2011,
14 is amended to read as follows:

15 The auditor of state shall be reimbursed by a department
16 or agency for performing audits or examinations of the
17 following state departments or agencies, or funds received by
18 a department or agency:

19 Sec. 9. Section 11.5B, subsection 13, Code 2011, is amended
20 to read as follows:

21 13. Federal financial assistance, as defined in ~~Pub. L. No.~~
22 ~~98-502~~ the federal Single Audit Act, 31 U.S.C. § 7501, et seq.,
23 received by all other departments.

24 Sec. 10. Section 11.6, subsection 1, paragraph a, Code 2011,
25 is amended to read as follows:

26 a. (1) The Except for entities organized under chapter
27 28E having gross receipts of one hundred thousand dollars or
28 less in a fiscal year, the financial condition and transactions
29 of all cities and city offices, counties, county hospitals
30 organized under chapters 347 and 347A, memorial hospitals
31 organized under chapter 37, entities organized under chapter
32 28E having gross receipts in excess of one hundred thousand
33 dollars in a fiscal year, merged areas, area education
34 agencies, and all school offices in school districts,
35 government subdivisions shall be examined audited at least once

1 each year, except that cities having a population of seven
 2 hundred or more but less than two thousand shall be examined at
 3 least once every four years, and cities having a population of
 4 less than seven hundred may be examined as otherwise provided
 5 in this section. ~~The examination shall cover the fiscal year~~
 6 ~~next preceding the year in which the audit is conducted.~~ The
 7 examination audit of school offices districts shall include
 8 an audit of all school funds including categorical funding
 9 provided by the state, the certified annual financial report,
 10 the certified enrollment as provided in section 257.6,
 11 supplementary weighting as provided in section 257.11, and the
 12 revenues and expenditures of any nonprofit school organization
 13 established pursuant to section 279.62. Differences in
 14 certified enrollment shall be reported to the department of
 15 management. The ~~examination~~ audit of school offices districts
 16 shall include at a minimum a determination that the laws of
 17 the state are being followed, that categorical funding is not
 18 used to supplant other funding except as otherwise provided,
 19 that supplementary weighting is pursuant to an eligible
 20 sharing condition, and that postsecondary courses provided in
 21 accordance with section 257.11 and chapter 261E supplement,
 22 rather than supplant, school district courses. The ~~examination~~
 23 audit of a city that owns or operates a municipal utility
 24 providing local exchange services pursuant to chapter 476 shall
 25 include ~~an audit~~ performing tests of the city's compliance with
 26 section 388.10. The ~~examination~~ audit of a city that owns
 27 or operates a municipal utility providing telecommunications
 28 services pursuant to section 388.10 shall include ~~an audit~~
 29 performing tests of the city's compliance with section 388.10.

30 (2) Subject to the exceptions and requirements of
 31 ~~subsection~~ subsections 2 and 3, and subsection 4, paragraph
 32 "a", subparagraph (3), ~~examinations~~ audits shall be made as
 33 determined by the governmental subdivision either by the
 34 auditor of state or by certified public accountants, certified
 35 in the state of Iowa, and they shall be paid from the proper

1 public funds of the governmental subdivision.

2 Sec. 11. Section 11.6, subsection 1, Code 2011, is amended
3 by adding the following new paragraph:

4 NEW PARAGRAPH. *Ob.* The financial condition and transactions
5 of community mental health centers organized under chapter
6 230A, substance abuse programs organized under chapter 125, and
7 community action agencies organized under chapter 216A, shall
8 be audited at least once each year.

9 Sec. 12. Section 11.6, subsection 1, paragraph b, Code 2011,
10 is amended to read as follows:

11 *b.* (1) In conjunction with the audit of the governmental
12 subdivision required under this section, the ~~person performing~~
13 ~~the audit~~ auditor shall also perform tests for compliance with
14 the investment policy of a ~~reasonable number of investment~~
15 ~~transactions in relation to the total investments and quantity~~
16 ~~of transactions in the period audited~~ the governmental
17 subdivision. The results of the compliance testing shall
18 be reported in accordance with generally accepted auditing
19 standards. The ~~person performing the audit~~ auditor may also
20 make recommendations for changes to investment policy or
21 practices. The governmental subdivision is responsible for the
22 remedy of reported noncompliance with its policy or practices.

23 (2) (a) As part of its audit, the governmental subdivision
24 is responsible for obtaining and providing to the ~~person~~
25 ~~performing the audit~~ auditor the audited financial statements
26 and related report on internal control ~~structure~~ of outside
27 persons, performing any of the following during the period
28 under audit for the governmental subdivision:

29 (i) Investing public funds.

30 (ii) Advising on the investment of public funds.

31 (iii) Directing the deposit or investment of public funds.

32 (iv) Acting in a fiduciary capacity for the governmental
33 subdivision.

34 (b) The audit under this section shall not be certified
35 until all material information required by this subparagraph is

1 reviewed by the ~~person performing the audit~~ auditor.

2 (3) The review by the ~~person performing the audit~~ auditor of
3 the most recent annual report to shareholders of an open-end
4 management investment company or an unincorporated investment
5 company or investment trust registered with the federal
6 securities and exchange commission under the federal Investment
7 Company Act of 1940, 15 U.S.C. § 80a, pursuant to 17 C.F.R.
8 § 270.30d-1 or the review, by the ~~person performing the audit~~
9 auditor, of the most recent annual report to shareholders, call
10 reports, or the findings pursuant to a regular examination
11 under state or federal law, to the extent the findings are
12 not confidential, of a bank, savings and loan association, or
13 credit union shall satisfy the review requirements of this
14 paragraph.

15 (4) All contracts or agreements with outside persons
16 performing any of the functions listed in subparagraph (2)
17 shall require the outside person to notify in writing the
18 governmental subdivision within thirty days of receipt of all
19 communication from the ~~person performing the audit~~ auditor
20 or any regulatory authority of the existence of a material
21 weakness in internal control ~~structure~~, or regulatory orders or
22 sanctions against the outside person, with regard to the type
23 of services being performed under the contracts or agreements.
24 This provision shall not be limited or avoided by another
25 contractual provision.

26 (5) As used in this subsection, "*outside person*" excludes a
27 bank, savings and loan association, or credit union when acting
28 as an approved depository pursuant to chapter 12C.

29 (6) A joint investment trust organized pursuant to chapter
30 28E shall file the audit reports required by this chapter with
31 the administrator of the securities and regulated industries
32 bureau of the insurance division of the department of commerce
33 within ten days of receipt from the auditor. The auditor of
34 a joint investment trust shall provide written notice to the
35 administrator of the time of delivery of the reports to the

1 joint investment trust.

2 (7) If during the course of an audit of a joint investment
3 trust organized pursuant to chapter 28E, the auditor determines
4 the existence of a material weakness in the internal control
5 ~~structure~~ or a material violation of the internal control
6 ~~structure~~, the auditor shall report the determination to the
7 joint investment trust which shall notify the administrator in
8 writing within twenty-four hours, and provide a copy of the
9 notification to the auditor. The auditor shall provide, within
10 twenty-four hours of the receipt of the copy of the notice,
11 written acknowledgment of the receipt to the administrator.
12 If the joint investment trust does not make the notification
13 within twenty-four hours, or the auditor does not receive a
14 copy of the notification within twenty-four hours, the auditor
15 shall immediately notify the administrator in writing of the
16 material weakness in the internal control ~~structure~~ or the
17 material violation of the internal control ~~structure~~.

18 Sec. 13. Section 11.6, subsection 2, Code 2011, is amended
19 to read as follows:

20 2. ~~a.~~ ~~A city, community college, school district, area~~
21 ~~education agency, entity organized under chapter 28E, county,~~
22 ~~county hospital, or memorial hospital desiring to contract~~
23 governmental subdivision, community mental health center,
24 substance abuse program, or community action agency contracting
25 ~~with or employ certified public accountants shall utilize~~
26 do so in a reasonable manner on the basis of competence and
27 qualification for the services required and for a fair and
28 reasonable price utilizing procedures which include a written
29 request for proposals.

30 ~~b.~~ ~~The governing body of a city, community college, school~~
31 ~~district, area education agency, entity organized under chapter~~
32 ~~28E, county, county hospital, or memorial hospital utilizing~~
33 ~~the auditor of state instead of a certified public accountant~~
34 ~~to perform an audit shall notify the auditor of state by June~~
35 ~~1 of the year to be audited. If the governing body fails~~

1 ~~to notify the auditor of state of the decision to use the~~
2 ~~auditor of state, the auditor of state may perform the audit~~
3 ~~required in subsection 1 only if provisions are not made by the~~
4 ~~governing body to contract for the audit.~~

5 Sec. 14. Section 11.6, subsection 3, Code 2011, is amended
6 to read as follows:

7 3. A township or city for which ~~examinations~~ audits are not
8 required under subsection 1 may contract with or employ the
9 auditor of state or certified public accountants for an audit
10 or examination of its financial transactions and condition of
11 its funds. ~~A financial examination~~ An audit is mandatory on
12 application by one hundred or more taxpayers, or if there are
13 fewer than ~~five hundred~~ six hundred sixty-seven taxpayers in
14 the township or city, then by fifteen percent of the taxpayers.
15 Payment for the audit or examination shall be made from the
16 proper public funds of the township or city.

17 Sec. 15. Section 11.6, subsection 4, Code 2011, is amended
18 to read as follows:

19 4. a. In addition to the powers and duties under other
20 provisions of the Code, the auditor of state may at any time
21 cause to be made a complete or partial reaudit of the financial
22 condition and transactions of any ~~city, county, county~~
23 ~~hospital, memorial hospital, entity organized under chapter~~
24 ~~28E, merged area, area education agency, school corporation,~~
25 ~~township, or other governmental subdivision, or an office~~
26 of any ~~of these~~ governmental subdivision, if ~~one~~ any of the
27 following conditions exists:

28 (1) The auditor of state has probable cause to believe
29 such action is necessary in the public interest because of a
30 material deficiency in an audit of the governmental subdivision
31 filed with the auditor of state or because of a substantial
32 failure of the audit to comply with the standards and
33 procedures established and published by the auditor of state.

34 (2) The auditor of state receives from an elected official
35 or employee of the governmental subdivision a written

1 request for a complete or partial reaudit of the governmental
2 subdivision.

3 (3) The auditor of state receives a petition signed by at
4 least ~~fifty~~ one hundred eligible electors of the governmental
5 subdivision requesting a complete or partial reaudit of the
6 governmental subdivision. If the governmental subdivision has
7 not contracted with or employed a certified public accountant
8 to perform an audit of the fiscal year in which the petition
9 is received by the auditor of state, the auditor of state may
10 perform an audit required by subsection 1 or 3.

11 ~~b.~~ The ~~state audit~~ reaudit shall be paid from the proper
12 public funds available in the office of the auditor of
13 state. In the event the audited governmental subdivision
14 recovers damages from a person performing a previous audit
15 due to negligent performance of that audit or breach of the
16 audit contract, the auditor of state shall be entitled to
17 reimbursement on an equitable basis for funds expended from any
18 recovery made by the governmental subdivision.

19 ~~c.~~ ~~An examination under this subsection shall include~~
20 ~~a determination of whether investments by the governmental~~
21 ~~subdivision are authorized by state law.~~

22 Sec. 16. Section 11.6, subsection 7, Code 2011, is amended
23 to read as follows:

24 7. The auditor of state shall make guidelines available
25 to the public setting forth accounting and auditing standards
26 and procedures and audit and legal compliance programs to
27 be applied in the ~~examination~~ audit of the governmental
28 subdivisions of the state, which shall require a review of the
29 internal control ~~structure~~ and specify testing of ~~transactions~~
30 for compliance. The guidelines shall include a requirement
31 that the certified public accountant and governmental
32 subdivision immediately notify the auditor of state regarding
33 any suspected embezzlement, ~~or theft,~~ or other significant
34 financial irregularities. The auditor of state shall also
35 provide standard reporting formats for use in reporting the

1 results of an ~~examination~~ audit of a governmental subdivision.

2 Sec. 17. Section 11.6, subsection 9, Code 2011, is amended
3 to read as follows:

4 9. ~~The~~ Accounts of the Iowa state association of counties
5 ~~shall keep accounts as required by the auditor of state. These~~
6 accounts, the Iowa league of cities, and the Iowa association
7 of school boards shall be audited annually by either the
8 auditor of state or a certified public accountant certified in
9 the state of Iowa. The audit shall state all moneys expended
10 for expenses incurred by and salaries paid to legislative
11 representatives and lobbyists of the association audited.

12 Sec. 18. Section 11.6, subsection 10, Code 2011, is amended
13 to read as follows:

14 10. The auditor of state shall adopt rules in accordance
15 with chapter 17A to establish and collect a filing fee for
16 the filing of each report of audit or examination conducted
17 pursuant to subsections 1 through 3. The funds collected
18 shall be maintained in a segregated account for use by the
19 office of the auditor of state in performing audits conducted
20 pursuant to subsection 4 and for work paper reviews conducted
21 pursuant to subsection 5. Any funds collected by the auditor
22 pursuant to subsection 4 shall be deposited in this account.
23 Notwithstanding section 8.33, the funds in this account shall
24 not revert at the end of any fiscal year.

25 Sec. 19. Section 11.6, Code 2011, is amended by adding the
26 following new subsection:

27 NEW SUBSECTION. 11. Each governmental subdivision shall
28 keep its records and accounts in such form and by such methods
29 as to be able to exhibit in its reports the matters required
30 by the auditor of state, unless a form or method is otherwise
31 specifically prescribed by law. Each governmental subdivision
32 shall keep its records and accounts in current condition.

33 Sec. 20. Section 11.11, Code 2011, is amended by striking
34 the section and inserting in lieu thereof the following:

35 **11.11 Scope of audits.**

1 The written report of the audit of a governmental
2 subdivision shall include the auditor's opinion as to whether a
3 governmental subdivision's financial statements are presented
4 fairly in all material respects in conformity with generally
5 accepted accounting principles or with an other comprehensive
6 basis of accounting. As a part of conducting an audit of a
7 governmental subdivision, an evaluation of internal control
8 and tests for compliance with laws and regulations shall be
9 performed.

10 Sec. 21. Section 11.14, Code 2011, is amended to read as
11 follows:

12 **11.14 Reports — public inspection.**

13 1. A written report of ~~such examination an audit or~~
14 examination shall be ~~made in triplicate signed and verified by~~
15 ~~the officers making the examination; one copy to be provided~~
16 to the governmental subdivision and filed with the auditor of
17 state, ~~one copy with the officer under investigation, and one~~
18 ~~copy to the county auditor who shall transmit same to the board~~
19 ~~of supervisors if a county office is under investigation, or~~
20 ~~with the president of the school board if a school is under~~
21 ~~investigation, or with the mayor and the council if a city~~
22 ~~office is under examination.~~ All reports shall be open to
23 public inspection, including copies on file in the office
24 of the state auditor, and refusal on the part of any public
25 official to permit such inspection when such reports have
26 been filed with the state auditor shall constitute a simple
27 misdemeanor.

28 2. In addition to ~~the foregoing subsection 1,~~ notice that
29 the report has been filed shall be forwarded immediately to
30 each newspaper, radio station, or television station located
31 in the county, municipality or school district which is under
32 ~~investigation or audit; except that governmental subdivision~~
33 that was audited or examined. However, if there is no
34 newspaper, radio station, or television station located therein
35 in the governmental subdivision, such notice shall be sent to

1 the official newspapers of the county.

2 Sec. 22. Section 11.19, Code 2011, is amended to read as
3 follows:

4 **11.19 Auditor's powers and duties.**

5 1. Where an audit or examination is made under contract
6 with, or employment of, ~~certified or registered~~ public
7 accountants, the auditor shall, in all matters pertaining to
8 an authorized audit or examination, have all of the powers and
9 be vested with all the authority of state auditors employed by
10 the auditor of state, and the cost ~~and expense~~ of the audit
11 or examination shall be paid by the ~~city, school district,~~
12 ~~or township~~ governmental subdivision procuring the audit or
13 examination. ~~An itemized sworn~~ A detailed statement of the
14 ~~per diem and expense cost~~ of the auditor audit or examination
15 shall be filed with the ~~clerk of the city, township, or school~~
16 ~~district, before payment thereof~~ governmental subdivision.
17 Upon completion of such audit or examination, a ~~signed~~ copy
18 ~~thereof~~ of the report and a detailed, itemized statement
19 of cost, including hours spent performing the audit or
20 examination, shall be filed ~~by the accountant employed with the~~
21 ~~auditor of state~~ in a manner specified by the auditor of state.

22 ~~All reports shall be open to public inspection, including~~
23 ~~copies on file in the office of the state auditor, and refusal~~
24 ~~on the part of any public official to permit such inspection~~
25 ~~when such reports have been filed with the state auditor, shall~~
26 ~~constitute a simple misdemeanor.~~

27 ~~In addition to the foregoing, notice that the report has~~
28 ~~been filed shall be forwarded immediately to each newspaper,~~
29 ~~radio station or television station located in the city,~~
30 ~~school district or township which is under investigation or~~
31 ~~audit; except that if there is no newspaper, radio station or~~
32 ~~television station located therein, the notice shall be sent to~~
33 ~~the official newspapers of the county.~~

34 2. Failure to file the report and the statement of cost
35 with the auditor of state within thirty days after receiving

1 notification of not receiving the audit report and the
2 statement of cost shall bar the accountant from making any
3 governmental subdivision audits or examinations under section
4 11.6 for the following fiscal year.

5 Sec. 23. Section 11.20, Code 2011, is amended to read as
6 follows:

7 **11.20 Bills — audit and payment.**

8 If the audit or examination is made by the auditor of state
9 under this chapter, each auditor shall file with the auditor
10 of state an itemized, certified and sworn voucher of time and
11 expense ~~for the time that~~ the auditor is actually engaged in
12 the audit or examination. The salaries shall be included in
13 a two-week payroll period. Upon approval of the auditor of
14 state the director of the department of administrative services
15 may issue warrants for the payment of the vouchers and salary
16 payments, ~~including a prorated amount for vacation and sick~~
17 ~~leave,~~ from any unappropriated funds in the state treasury.
18 Repayment to the state shall be made as provided by section
19 11.21.

20 Sec. 24. Section 11.21, Code 2011, is amended to read as
21 follows:

22 **11.21 Repayment — objections.**

23 1. Upon payment by the state of the salary and expenses,
24 the auditor of state shall file with the warrant-issuing
25 officer of the ~~county, municipality or school,~~ governmental
26 subdivision whose offices were audited or examined, a sworn
27 statement consisting of the itemized expenses paid and prorated
28 salary costs paid under section 11.20. Upon ~~audit and~~ approval
29 by the ~~board of supervisors, council or school board,~~ the
30 ~~warrant-issuing officer shall draw a warrant for the amount~~
31 ~~on the county, or on the general fund of the municipality or~~
32 ~~school in favor of the auditor of state, which warrant shall be~~
33 ~~placed to the credit of the general fund of the state governing~~
34 body of the governmental subdivision, payment shall be made
35 from the proper public funds of the governmental subdivision.

1 In the event of the disapproval by the governing body of the
 2 governmental subdivision of any items ~~of said~~ included on the
 3 ~~statement by the county, municipality, or school authorities,~~
 4 written objections shall be filed with the auditor of state
 5 within thirty days from the filing ~~thereof~~ of the sworn
 6 statement with the warrant-issuing officer of the governmental
 7 subdivision. Disapproved items of the statement shall be paid
 8 the auditor of state upon receiving final decisions emanating
 9 from public hearing established by the auditor of state.

10 2. ~~Whenever the county board of supervisors, the school~~
 11 ~~board, or the council shall file~~ governing body of the
 12 governmental subdivision files written objections on the
 13 question of compensation and expenses with the auditor of
 14 state, the auditor or the auditor's representative shall hold
 15 a public hearing in the municipality governmental subdivision
 16 where the audit or examination was made and shall give the
 17 complaining board notice of the time and place of hearing.
 18 After such hearing the auditor shall have the power to reduce
 19 the compensation and expenses of the auditor whose bills have
 20 been questioned. ~~Any auditor who shall be found guilty of~~
 21 ~~falsifying an expense voucher or engagement report shall be~~
 22 ~~immediately discharged by the auditor of state and shall not~~
 23 ~~be eligible for re-employment. Such auditor must thereupon~~
 24 ~~reimburse the auditor of state for all such compensation and~~
 25 ~~expenses so found to have been overpaid and in the event of~~
 26 ~~failure to do so, the auditor of state may collect the same~~
 27 ~~amount from the auditor's surety by suit, if necessary.~~

28 Sec. 25. Section 11.28, Code 2011, is amended to read as
 29 follows:

30 **11.28 Individual audit or examination reports — copies.**

31 ~~1. The individual audit~~ Audit or examination reports
 32 shall include applicable exhibits, ~~and~~ schedules to report
 33 ~~data similar to that required by section 11.4,~~ findings, and
 34 recommendations. The format of the reports shall as nearly
 35 ~~as possible correspond and be prepared similar in form to~~

1 ~~the audit reports rendered by certified public accountants~~
2 comply with applicable professional accounting and auditing
3 standards or procedures established by the auditor of state.
4 ~~The reports shall include information as to the assets and~~
5 ~~liabilities of the various departments and institutions audited~~
6 ~~as of the beginning and close of the fiscal year audited, the~~
7 ~~receipts and expenditures of cash, the disposition of materials~~
8 ~~and other properties, and the net income and net operating~~
9 ~~cost. Where applicable, the reports shall also set forth~~
10 ~~the average cost per year for the inmates, members, clients,~~
11 ~~patients, and students served in the various classifications~~
12 ~~of expenses. The reports shall make comparisons of the~~
13 ~~average costs and classifications, and shall give such other~~
14 ~~information, suggestions, and recommendations as may be deemed~~
15 ~~of advantage and to the best interests of the taxpayers of the~~
16 ~~state.~~

17 2. ~~The daily audit report of the state treasury shall be~~
18 ~~submitted to the director of the department of administrative~~
19 ~~services and the director of the department of management.~~
20 ~~Copies of all individual audit reports of all state departments~~
21 ~~and establishments shall be transmitted to the directors'~~
22 ~~offices after the completion of each audit, and copies of all~~
23 ~~local government audits shall, until otherwise provided, be~~
24 ~~also supplied to the directors' offices. Copies of the local~~
25 ~~government audit reports shall also be supplied to the officers~~
26 ~~of the counties, schools, and cities, as provided by law.~~
27 ~~Summaries of the findings, recommendations, and comparisons,~~
28 ~~together with any other information deemed essential, shall be~~
29 ~~printed and distributed to members of the general assembly.~~

30 Sec. 26. Section 11.32, Code 2011, is amended to read as
31 follows:

32 **11.32 Certified accountants employed.**

33 Nothing in this chapter ~~will~~ shall prohibit the auditor
34 of state, with the prior written permission of the state
35 executive council, from employing certified public accountants

1 ~~or registered public accountants~~ for specific assignments.
2 ~~Under the provision of this section, the~~ The auditor of state
3 may employ such accountants for any assignment now expressly
4 reserved to the auditor of state. Payments, after approval
5 by the executive council, will be made to the accountants so
6 employed from funds from which the auditor of state would have
7 been paid had the auditor of state performed the assignment, or
8 if no such specific funds are indicated, then payment will be
9 made from the funds of the executive council.

10 Sec. 27. Section 11.41, Code 2011, is amended by adding the
11 following new subsection:

12 NEW SUBSECTION. 1A. Auditors shall have the right while
13 conducting audits or examinations to have full access to all
14 papers, books, records, and documents of any officers or
15 employees and shall have the right, in the presence of the
16 custodian or the custodian's designee, to have full access
17 to the cash drawers and cash in the official custody of the
18 officer or employee and, during business hours, to examine the
19 public accounts of the department or governmental subdivision
20 in any depository which has public funds in its custody
21 pursuant to the law.

22 Sec. 28. NEW SECTION. 11.42 **Disclosures prohibited.**

23 1. Notwithstanding chapter 22, information received during
24 the course of any audit or examination, including allegations
25 of misconduct or noncompliance, and all audit or examination
26 work papers shall be maintained as confidential.

27 2. Information maintained as confidential as provided by
28 this section may be disclosed for any of the following reasons:

29 a. As necessary to complete the audit or examination.

30 b. To the extent the auditor is required by law to report
31 the same or to testify in court.

32 3. Upon completion of an audit or examination, a report
33 shall be prepared as required by section 11.28 and all
34 information included in the report shall be public information.

35 4. Any violation of this section shall be grounds for

1 termination of employment with the auditor of state.

2 Sec. 29. NEW SECTION. 11.51 **Subpoenas.**

3 The auditor of state shall, in all matters pertaining to an
4 authorized audit or examination, have power to issue subpoenas
5 of all kinds, administer oaths and examine witnesses, either
6 orally or in writing, and the expense attending the same,
7 including the expense of taking oral examinations, shall be
8 paid as other expenses of the auditor.

9 Sec. 30. NEW SECTION. 11.52 **Refusal to testify.**

10 In case any witness duly subpoenaed refuses to attend, or
11 refuses to produce documents, books, and papers, or attends
12 and refuses to make oath or affirmation, or, being sworn or
13 affirmed, refuses to testify, the auditor of state or the
14 auditor's designee may apply to the district court, or any
15 judge of said district having jurisdiction thereof, for the
16 enforcement of attendance and answers to questions as provided
17 by law in the matter of taking depositions.

18 Sec. 31. NEW SECTION. 11.53 **Report filed with county**
19 **attorney.**

20 If an audit or examination discloses any irregularity in the
21 collection or disbursement of public funds, in the abatement
22 of taxes, or other findings the auditor believes represent
23 significant noncompliance, a copy of the report shall be filed
24 with the county attorney, and it shall be the county attorney's
25 duty to cooperate with the state auditor, and, in proper cases,
26 with the attorney general, to secure the correction of the
27 irregularity.

28 Sec. 32. NEW SECTION. 11.54 **Duty of attorney general.**

29 In the event an audit or examination discloses any grounds
30 which would be grounds for removal from office, a copy of the
31 report shall be provided and filed by the auditor of state in
32 the office of the attorney general of the state, who shall
33 thereupon take such action as, in the attorney general's
34 judgment, the facts and circumstances warrant.

35 Sec. 33. NEW SECTION. 11.55 **State auditors.**

1 1. The auditor of state shall appoint such number of state
2 auditors as may be necessary to make audits and examinations as
3 required in this chapter. The auditors shall be of recognized
4 skill and integrity and familiar with the system of accounting
5 used in departments or governmental subdivisions and with the
6 laws relating to the affairs of departments or governmental
7 subdivisions. Such auditors shall be subject at all times to
8 the direction of the auditor of state.

9 2. The auditor of state shall appoint such additional
10 assistants to the auditors as may be necessary, who shall be
11 subject to discharge at any time by the auditor of state.

12 3. Any auditor or assistant who is found guilty of
13 falsifying a time and expense voucher or engagement report
14 shall be immediately discharged by the auditor of state and
15 shall not be eligible for reemployment. Such auditor or
16 assistant must thereupon reimburse the auditor of state for all
17 such compensation and expenses so found to have been overpaid
18 and in the event of failure to do so, the auditor of state may
19 collect the same amount from the auditor's surety by suit, if
20 necessary.

21 Sec. 34. Section 123.58, Code 2011, is amended to read as
22 follows:

23 **123.58 Auditing.**

24 All provisions of sections 11.6, ~~11.7, 11.10,~~ 11.11,
25 11.14, 11.21, 11.41, and ~~11.23~~ 11.55, relating to auditing of
26 financial records of governmental subdivisions which are not
27 inconsistent with this chapter are applicable to the division
28 and its offices, warehouses, and depots.

29 Sec. 35. Section 125.55, Code 2011, is amended to read as
30 follows:

31 **125.55 Audits.**

32 All licensed substance abuse programs are subject to
33 annual audit either by the auditor of state or in lieu
34 of ~~the examination~~ an audit by the auditor of state the
35 substance abuse program may contract with or employ certified

1 public accountants to conduct the audit, in accordance with
2 sections 11.6, 11.14, and 11.19. The audit format shall be
3 as prescribed by the auditor of state. The certified public
4 accountant shall submit a copy of the audit to the director.
5 A licensed substance abuse program is also subject to special
6 audits as the director requests. The licensed substance abuse
7 program or the department shall pay all expenses incurred by
8 the auditor of state in conducting an audit under this section.

9 Sec. 36. Section 216A.98, Code 2011, is amended to read as
10 follows:

11 **216A.98 Audit.**

12 Each community action agency shall be audited annually but
13 shall not be required to obtain a duplicate audit to meet the
14 requirements of this section. In lieu of an audit by the
15 auditor of state, the community action agency may contract
16 with or employ a certified public accountant to conduct
17 the audit, pursuant to the applicable terms and conditions
18 prescribed by sections 11.6, 11.14, and 11.19 and an audit
19 format prescribed by the auditor of state. Copies of each
20 audit shall be furnished to the division in a manner prescribed
21 by the division.

22 Sec. 37. Section 230A.16, subsection 3, Code 2011, is
23 amended to read as follows:

24 3. Arrange for the financial condition and transactions
25 of the community mental health center to be audited once
26 each year by the auditor of state. However, in lieu of an
27 audit by state accountants, the local governing body of a
28 community mental health center organized under this chapter may
29 contract with or employ certified public accountants to conduct
30 the audit, pursuant to the applicable terms and conditions
31 prescribed by sections 11.6, 11.14, and 11.19 and audit format
32 prescribed by the auditor of state. Copies of each audit shall
33 be furnished by the accountant to the administrator of the
34 division of mental health and disability services and the board
35 of supervisors supporting the audited community mental health

1 center.

2 Sec. 38. Section 279.38, subsection 2, Code 2011, is amended
3 to read as follows:

4 2. The financial condition and transactions of the Iowa
5 association of school boards shall be audited ~~in the same~~
6 ~~manner as school corporations~~ as provided in section 11.6.
7 In addition, annually the Iowa association of school boards
8 shall publish a listing of the school districts and the
9 annual dues paid by each, the total revenue the association
10 receives from each school district resulting from the payment
11 of membership fees and the sale of products and services to
12 the school district by the association or its affiliated
13 for-profit entities, and shall publish an accounting of all
14 moneys expended for expenses incurred by and salaries paid to
15 legislative representatives and lobbyists of the association.
16 In addition, the association shall submit to the general
17 assembly copies of all reports the association provides to
18 the United States department of education relating to federal
19 grants and grant amounts that the association or its affiliated
20 for-profit entities administer or distribute to school
21 districts. The Iowa association of school boards is subject
22 to chapters 21 and 22 relating to open meetings and public
23 records.

24 Sec. 39. Section 331.756, subsection 11, Code 2011, is
25 amended to read as follows:

26 11. Cooperate with the auditor of state to secure correction
27 of a financial irregularity as provided in section ~~11.15~~ 11.53.

28 Sec. 40. Section 364.5, unnumbered paragraph 2, Code 2011,
29 is amended to read as follows:

30 The financial condition and the transactions of the Iowa
31 league of cities shall be audited ~~in the same manner as cities~~
32 as provided in section 11.6.

33 Sec. 41. REPEAL. Sections 11.7 through 11.10, 11.12, 11.13,
34 11.15 through 11.17, 11.23, 11.25, and 11.27, Code 2011, are
35 repealed.

EXPLANATION

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This bill makes changes relating to the duties and responsibilities of the auditor of state.

Code section 11.1 is amended to define examination as a procedure less in scope than an audit but which is directed at reviewing financial activities and compliance with legal requirements. "Governmental subdivision" is also defined to mean cities, administrative agencies of cities, city hospitals, counties, county hospitals, memorial hospitals, Code chapter 28E entities, community colleges, area education agencies, and school districts.

Code section 11.2, concerning annual settlements and audits, is amended to eliminate language referring to settlement between state officers and persons receiving or expending state funds, but the requirement to make an annual audit remains. The Code section is also amended to eliminate the requirement to make a quarterly preliminary audit of the educational institutions of the state and the state fair board. The Code section is also amended to provide that departments notify the auditor regarding any suspected embezzlement, theft, or other financial irregularities.

Code section 11.4, concerning reports of audits, is amended to eliminate the requirement that the written reports contain comparisons of prices paid and terms obtained by the various departments for goods and services and the reasons, if any, if they differ.

Code section 11.6, concerning the auditing and examination of governmental subdivisions, is amended.

Code section 11.6(1), concerning what governmental subdivisions are subject to audit, is amended. The bill adds community mental health centers, substance abuse programs, and community action agencies to the list of entities requiring an annual audit.

Code section 11.6(2), concerning the employment of certified public accountants by a governmental subdivision, is amended to

1 provide that a written request for proposals process be used to
2 employ such accountants.

3 Code section 11.6(3) is amended by raising certain minimum
4 population requirements for citizens requesting an audit by
5 petition from 500 to 667.

6 Code section 11.6(4) is amended to increase from 50 to 100
7 the number of eligible electors of a governmental subdivision
8 needed to sign a petition for a reaudit of that governmental
9 subdivision.

10 Code section 11.6(7), concerning notification of suspected
11 theft or embezzlement, is amended to provide that governmental
12 subdivisions are also required to provide this notice and to
13 provide that the certified public accountant performing the
14 audit and the governmental subdivision also notify the auditor
15 of state if other significant financial irregularities are
16 suspected.

17 Code section 11.6(9) is amended to include the Iowa league of
18 cities and the Iowa association of school boards as entities
19 to be audited on an annual basis. Current law provides for an
20 audit of these entities under Code sections 279.38 and 364.5
21 and those Code sections are amended to reflect placement of
22 this requirement to audit in Code section 11.6.

23 Code section 11.6 is amended by adding a new subsection that
24 provides that governmental subdivisions keep records current
25 and in a format to exhibit in the reports the matters required
26 by the auditor of state.

27 Code section 11.7, concerning appointment of state
28 auditors, is repealed, but the substance of the Code section
29 is transferred to new Code section 11.55, except that the bill
30 would remove the current bond requirement of \$2,000 for each
31 state auditor.

32 Code section 11.8, concerning assistants to state auditors,
33 is repealed, but the substance of the Code section is
34 transferred to new Code section 11.55.

35 Code section 11.9, concerning certain local government

1 auditors' salaries and expenses, is repealed.

2 Code section 11.10, concerning examinations, is repealed,
3 but the substance of the Code section is transferred to Code
4 section 11.41, subsection 1A.

5 Code section 11.11, concerning scope of audits, is amended
6 to provide that the audit include an opinion about whether
7 a governmental subdivision's financial statements are in
8 conformity with generally accepted accounting principles or
9 with an other comprehensive basis of accounting.

10 Code section 11.12, concerning subpoenas, is repealed, but
11 the substance of the Code section is transferred to new Code
12 section 11.51.

13 Code section 11.13, concerning refusal to testify, is
14 repealed, but the substance of the Code section is transferred
15 to new Code section 11.52.

16 Code section 11.14, concerning reports and public
17 inspection, is amended to provide that written audit or
18 examination reports shall be provided to the governmental
19 subdivision and filed with the auditor of state. Current
20 requirements to produce reports in triplicate and to deliver
21 copies to certain designated individuals is eliminated.

22 Code section 11.15, concerning reports filed with the county
23 attorney, is repealed, but the substance of the Code section is
24 transferred to new Code section 11.53.

25 Code section 11.16, concerning the duty of the attorney
26 general, is repealed, but the substance of the Code section is
27 transferred to new Code section 11.54.

28 Code section 11.17, concerning prohibited disclosures, is
29 repealed, but the substance of the Code section is transferred
30 to new Code section 11.42.

31 Code section 11.19, concerning the auditor's powers and
32 duties, is amended to eliminate the requirement that reports be
33 open to public inspection and eliminates the criminal penalty
34 for failing to permit inspection of reports that have been
35 filed with the auditor of state. Provisions concerning the

1 forwarding of notice that a report has been filed to the local
2 media are also stricken from this Code section. Code section
3 11.14 still provides that the report is available for public
4 inspection and submitted to local media.

5 Code section 11.20, concerning salary payments to auditors,
6 is amended by striking the provision allowing for a prorated
7 amount for vacation and sick leave.

8 Code section 11.21, concerning repayment of auditors, is
9 amended to provide that the provisions of this Code section
10 apply to governmental subdivisions. The provision of this
11 Code section providing for the discharge of auditors who shall
12 be found guilty of falsifying an expense voucher is stricken
13 from this Code section, but the substance of this provision is
14 transferred to new Code section 11.55.

15 Code section 11.23, providing that each school officer
16 install and use a system of uniform blanks and forms, is
17 repealed.

18 Code sections 11.25 and 11.27, concerning the requirement of
19 the auditor to submit a biennial report to the governor and to
20 make individual audit reports, are repealed.

21 Code section 11.28, concerning individual audit reports, is
22 amended by striking requirements relative to the submission
23 of the daily audit report and required copies of certain
24 audit reports. The bill also provides that the format of the
25 reports shall comply with applicable professional standards or
26 procedures established by the auditor.

27 Code section 11.32 is amended to strike a reference to
28 the auditor having the authority to employ registered public
29 accountants. The current reference to employing certified
30 public accountants is unchanged by the bill.